

**Congress of the United States**  
**Washington, DC 20515**

June 8, 2021

Secretary Janet Yellen  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Secretary Yellen,

Congratulations on your confirmation as Secretary of the Treasury Department. We look forward to working with you to rebuild a stronger, fairer, and more resilient economy as we recover from the COVID-19 pandemic.

We write to highlight that essential to rebuilding a more stable and inclusive economy is strengthening the Financial Stability Oversight Council (“FSOC”), most notably restoring the FSOC’s framework for designating nonbank financial companies as systemically important and expanding the Council’s use of this vital tool. Our economy increasingly faces unprecedented risks and challenges due to climate change, which makes restoring and expanding the designation of Systemically Important Financial Institutions (“SIFIs”) all the more essential.

During the Trump Administration, under the leadership of former Secretary Mnuchin, the FSOC was purposefully weakened to advance an explicitly anti-regulatory agenda. Secretary Mnuchin’s top priority after taking charge of the FSOC in 2017 was rescinding the designations of the three nonbank SIFIs, in effect deregulating these large, complex, and interconnected firms.<sup>1</sup> In addition to de-designating the existing nonbank SIFIs, Secretary Mnuchin proposed policy changes designed to make it nearly impossible for future administrations to designate new SIFIs.<sup>2</sup> As you noted in your May 2019 opposition letter, “these steps – in design and in practice – would neuter the designation authority. Though framed as procedural changes, these amendments amount to a substantial weakening of the post-crisis reforms.”<sup>3</sup> In December 2019, the FSOC adopted these changes, transitioning to a toothless activities-based approach whereby the FSOC can designate an institution as systemically important only as a last resort.<sup>4</sup>

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<sup>1</sup> Gelzinis, G., 2019. Strengthening the Regulation and Oversight of Shadow Banks: Revitalizing the Financial Stability Oversight Council. *Center for American Progress*, <https://www.americanprogress.org/issues/economy/reports/2019/07/18/471564/strengthening-regulation-oversight-shadow-banks/>. Prudential Financial and American International Group were de-designated, while the FSOC dropped the appeal in the court case regarding MetLife’s designation.

<sup>2</sup> Ibid.

<sup>3</sup> Geithner, T., Lew, J., Bernanke, B., Yellen, J., Letter to Secretary Steven T. Mnuchin, Chairman Jerome H. Powell. Re: Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies (RIN 4030-ZA00), May 2019. <https://int.nyt.com/data/documenthelper/887-bernanke-geithner-lew-yellen-letter/a22621b202dfcb0fe06e/optimized/full.pdf#page=1>

<sup>4</sup> 2019. Final Interpretive Guidance, Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 84 Fed. Reg. 71,740, <https://www.govinfo.gov/content/pkg/FR-2019-12-30/pdf/2019-27108.pdf>.

Under the 2019 rule change, the FSOC is also required to evaluate the likelihood that a financial institution would experience material financial distress before designating the firm as a SIFI. Of course, there is no metric or methodology that reliably predicts material financial distress with the type of foresight needed to mitigate impact on the economy.<sup>5</sup> This approach runs counter to the purpose of the SIFI designation, meant to prevent financial distress in firms before they present systemic risks.

For the FSOC to fulfill its statutory mandate and successfully respond to emerging threats to financial stability, undoing the damage of the Trump Administration is essential. This includes repealing the 2019 SIFI designation guidance and restoring SIFI designations to those firms designated under Secretary Mnuchin. But these changes, while necessary, are insufficient to address the risks to the economy that lie ahead, most notably the risks posed by climate change. Absent a SIFI designation, a range of nonbank financial institutions will be overly vulnerable to climate-related risks and other threats to general financial stability.

Under the Paris Climate Agreement, President Biden has committed the United States to a 50% reduction in greenhouse gas emissions by 2030 in an effort to limit global temperature increase to 1.5°C, consistent with the United Nations IPCC Special Report.<sup>6</sup> Accomplishing this goal will require rapid, dramatic changes to multiple sectors of the economy, which could threaten financial stability if not managed properly. Failing to accomplish this goal will have dire implications for financial stability. We know that even if we succeed in limiting the increase in global temperature to 1.5°C, we have already set irreversible changes to our environment into motion.<sup>7</sup>

Increases in global temperature will undoubtedly have destabilizing impacts on our financial system and our economy at large. The physical effects of climate change, including extreme weather events, could significantly impair the value of an array of real and financial assets and the institutions who own or have financial exposure to them.<sup>8</sup> The increase in frequency and severity of wildfires, floods, hurricanes, and droughts will disrupt supply chains, compress corporate profits, drive up insurance claims, reduce the availability of insurance, and generally limit the ability of affected borrowers to repay debt.<sup>9</sup> Additionally, we cannot expect our economy to remain insulated from the geopolitical risks associated with reduced crop yields, food and water insecurity, and climate-driven migration.

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<sup>5</sup> Gelzinis, G., 2021. 5 Priorities for the Financial Stability Oversight Council. *Center for American Progress*, <https://www.americanprogress.org/issues/economy/reports/2021/03/31/497439/5-priorities-financial-stability-oversight-council/>

<sup>6</sup> 2021. FACT SHEET: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Union Jobs and Securing U.S. Leadership on Clean Energy Technologies. *The White House*, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/>

<sup>7</sup> Allen, M. et al. 2018. Special Report: Global Warming of 1.5 °C. Intergovernmental Panel on Climate Change, Summary for Policymakers, <https://www.ipcc.ch/sr15/>

<sup>8</sup> 2019. A call for action: Climate Change as a source of financial risk, *Network for Greening the Financial System*, [https://www.banque-france.fr/sites/default/files/media/2019/04/17/ngfs\\_first\\_comprehensive\\_report\\_-\\_17042019\\_0.pdf](https://www.banque-france.fr/sites/default/files/media/2019/04/17/ngfs_first_comprehensive_report_-_17042019_0.pdf).

<sup>9</sup> Bolton, P. et al., 2020. The green swan: Central banking and financial stability in the age of climate change, *Bank for International Settlements*, <https://www.bis.org/publ/othp31.pdf>.

In addition to these physical risks, our financial system is also vulnerable to what Federal Reserve Governor Lael Brainard has characterized as “transition risks: the risks associated with the transition to a policy framework that curtails emissions.”<sup>10</sup> The past year has dramatically highlighted these transition risks, as sudden changes in demand for fossil fuels led to a sharp uptick in corporate bankruptcies. In January, S&P placed 13 major oil and gas companies on a negative credit risk because of risks from “energy transition.”<sup>11</sup>

To manage the risks to financial stability posed by climate change, as well as all future risks to financial stability, we believe the FSOC must aggressively use the SIFI designation tool to ensure that all insurance companies, mortgage companies, leveraged hedge funds, private equity firms, asset managers, and other nonbank financial companies that meet at least one of the two statutory thresholds under the Dodd-Frank Wall Street Reform and Consumer Protection Act are subjected to appropriate regulation and oversight.

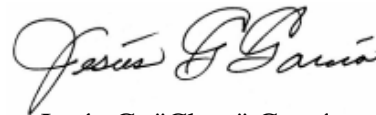
There are currently zero nonbank SIFIs designated by the FSOC, despite the movement of assets and risk to the nonbank financial sector and the largest and best telegraphed economic risk of our lifetime rapidly approaching.<sup>12</sup> The success of Secretary Mnuchin in weakening the FSOC made clear the lack of resilience that the current SIFI designation framework has to anti-regulatory efforts from an administration or within the FSOC itself. Legislative proposals exist to strengthen the FSOC’s ability to designate firms as systemically important, and we believe the Biden Administration should endorse such proposals and work with Congress to permanently strengthen the Council.<sup>13</sup> However, the current FSOC can and, we believe, should restore the SIFI designation framework and use it to meaningfully improve the resiliency of the financial system to climate change and other future financial stability threats.

Thank you for your attention to this issue. We look forward to working with you to mitigate the threats to financial stability posed by climate change and strengthen the FSOC so it is fully equipped to fulfill its mandate.

Sincerely,



Mondaire Jones  
Member of Congress



Jesús G. "Chuy" García  
Member of Congress

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<sup>10</sup> Brainard, L., 2019. Why Climate Change Matters for Monetary Policy and Financial Stability, *Board of Governors of the Federal Reserve System*, <https://www.federalreserve.gov/newsevents/speech/brainard20191108a.htm>.

<sup>11</sup> Perkins, R., 2021. Oil majors' credit ratings under threat from growing climate risks, *S&P Global Ratings*, <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/012621-oil-majors-credit-ratings-under-threat-from-growing-climate-risks-sampp-global>.

<sup>12</sup> 2019. Shadow Banking Implications for Financial Stability. *Fitch Ratings*, <https://www.fitchratings.com/research/non-bank-financial-institutions/global-shadow-banking-growth-increases-systemic-risks-21-05-2019>

<sup>13</sup> U.S. House, Systemic Risk Mitigation Act of 2020, H.R. 6501, Section 3, <https://www.congress.gov/bill/116th-congress/house-bill/6501?s=1&r=8>



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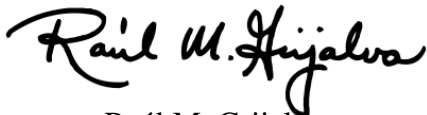
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